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ZNR UUUUU ZZH
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FM AMEMBASSY BAGHDAD
TO RUEHC/SECSTATE WASHDC PRIORITY 4226
INFO RUCNRAQ/IRAQ COLLECTIVE PRIORITY
RUEKJCS/SECDEF WASHINGTON DC PRIORITY
RUEKJCS/DIA WASHDC PRIORITY
RHMFISS/HQ USCENCOM MACDILL AFB FL PRIORITY
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UNCLAS SECTION 01 OF 02 BAGHDAD 003672

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SUBJECT: PRT NINEWA: LOCAL BUSINESS SAY WHAT IT WOULD TAKE
TO BOOST COMMERCE

REF: BAGHDAD 3349

¶1. This is a Ninewa Provincial Reconstruction Team (PRT) message.

Summary

¶2. (SBU) Provincial Reconstruction Team Ninewa (PRT) regularly engages the Iraqi private sector in and around Mosul, a region known for its historically active traders, agricultural processors and construction material manufacturers. However, the restrictive security environment, an energy crunch (reftel), a lack of credit (septel) and an ignorance of market economy operations constrain these potentially profitable industries in this northern Iraqi province. This cable condenses the views of provincial entrepreneurs, as described to the PRT over the last three months.

Security Constrains Market Activity

¶3. (SBU) Security, particularly in the sense of transportation security and extortion by criminal or terrorist elements, is a clear hindrance to both trade and the development of any profitable -- and, thus, high-profile -- business in Ninewa. Coalition Forces and the Iraqi Security Forces are addressing this issue, which also includes security-related delays at the province's Syrian border crossing. Nonetheless, business owners in Mosul and outlying towns complain that they cannot move safely between towns and to the border.

Fuel Shortages, Dual Price Structure Hurt Business

¶4. (SBU) Fuel and electricity shortages are macro-level issues that directly and negatively affect all commercial activity in Ninewa. Legal provincial fuel deliveries depend solely on the huge Baiji Oil Refinery, Salah ad Din province, which is incapable of meeting the province's demand. The Ministry of Oil allocation for Ninewa is estimated to cover only 50 percent of the province's need, while security and other factors limit the delivery of even that meager amount to about 75 percent of the allocation (about 35 to 40 percent of demand). This fuel shortage impedes commercial transport and agricultural operations (reftel). (Note: The allocation problem persists even though the Governor speaks daily with the Oil Distribution Manager for northern Iraq.) Further, in an environment of unmet electricity delivery off the national grid, this fuel shortage is particularly harmful since many Ninewa businesses and irrigation pumps rely on gasoline- and

diesel-fed generators. GOI support for artificially low government fuel prices, together with impediments to official and private fuel imports, impede supply and create a black market in fuels. Support for increased government and private imports and a unified fuel price structure where the official fuel price matches the world market price are systemic changes in the fuel economy that would have direct benefits for Ninewa businesses, eliminate rent-seeking behavior and cut out black market profiteers.

Credit Crunch Limits Commerce

15. (SBU) Access to increased credit is the third major commercial issue in Ninewa. While local businesses may initially say that they want more "foreign investment," they will explain that what they actually want is direct assistance to overcome high prices and low supplies of fuel, electricity and other inputs. Rather than direct cash assistance, increased access to credit would help them solve their own problems through a system of revolving credit, purchase and repayment. Support for increased lending at the state-owned banks and lending institutions, a reduction in the Central Bank of Iraq deposit rate, and bottom-up support of microlending institutions would all help increase the credit available to entrepreneurs who already have the commercial skills and connections to be successful in Ninewa.

Training, Preparation for Int'l Market Important, Too

16. (SBU) In the context of the four major commercial issues facing Ninewa, its immature commercial environment -- security, energy, credit and training -- assistance in training and

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mentoring to build commercial skills and connections is the area that American companies could be most effective. Emerging from decades of state direction and subsidization under Saddam's regime, Iraqi businesses lack the skills, first, to manufacture internationally competitive products and, second, to effectively market them on the international stage. Capacity building to boost the Iraqi ability to engage the newly liberalized Iraqi market could include training in accounting, business model creation, proposal writing and market research to help Iraqi companies identify, produce for and sell to local and regional markets.

Comment: Areas for Specific US Opportunities

17. (SBU) In specific industries, the most promising possibilities in Ninewa for American investment and cooperation are in the construction and agricultural processing fields. Building on the backbone of an existing state-owned cement factory that is in the process of privatization, coupled with a high -- and domestically unmet -- demand for building materials, American public and private engagement with the construction and construction material industry may be particularly fruitful. Iraqi companies are already asking about everything from large-scale investment in the cement plant to project-level coordination on civic structure construction.

18. (SBU) Similarly, American engagement with downstream agricultural processors to capitalize on Ninewa's robust farming economy would likely offer a profitable means to help meet the domestic shortage of basic foodstuffs. In this field, businessmen are already reaching out to American investors interested in supporting local tomato and sesame processing plants. In both construction and agricultural processing, there is an established production base, a known market and, given Ninewa's location near Syria and Turkey, an opportunity to expand incrementally beyond the Iraqi market as local capacity develops.

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